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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001042

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TAGS: ECON PREL PGOV EAIR EINV CH TW

SUBJECT: CROSS-STRAIT OPENING WILL BE TOP ECONOMIC PRIORITY  
UNDER A MA PRESIDENCY

Classified By: AIT Director Stephen M. Young, Reason 1.4 d

¶11. (SBU) Summary: If the Kuomintang's (KMT) Ma Ying-jeou is elected President of Taiwan next year, cross-Straits liberalization measures will be the focus of his economic policies. He is likely to lift various restrictions on investment in China and continue cross-Straits discussions on charter flights and tourism. Some of the KMT economic advisors we spoke to were uncertain about the level of cooperation Ma will receive from Beijing on bilateral initiatives if he wins. However, they appear confident that the Democratic Progressive Party (DPP) in the opposition will not be able to block Ma's cross-Straits economic agenda. End summary.

Setting an Agenda

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¶12. (U) Cross-Straits economic opening is certain to be a high priority if the KMT's Ma Ying-jeou is able to win Taiwan's presidency in 2008. On May 2, 2007, after he was confirmed as the KMT's presidential candidate, Ma held a press conference and outlined his economic plan. The plan set ambitious targets such as growth of 6.5 percent, increasing per capita GDP to US\$20,000 (from US\$15,640 in 2006), and reducing unemployment below 3 percent. Ma also highlighted general strategies that included promoting emerging industries, assisting "traditional" manufacturing industries, and making Taiwan a regional operations center.

¶13. (U) Most of the specific measures Ma identified to reach these targets and implement these strategies involved further opening Taiwan economically to China. Ma pledged to eliminate the capital limit on investment in China (often called the 40 percent rule because it limits many Taiwan firms to investing no more than 40 percent of their capital in China). He also promised to properly manage high-tech investment in China, implying he would free investment in some more advanced technologies. In addition, Ma said he would allow Taiwan firms with large investments in China to list on the Taiwan Stock Exchange and that he would open Taiwan up to more mainland tourists with an upper limit of 3 million PRC visitors per year.

¶4. (C) The lack of specific measures aimed at other areas of Taiwan's economy strongly suggests that cross-Strait issues will be the highest priority on the economic agenda of a Ma presidency. One of Ma's economic advisors explained to us that other economic problems were important but would only be addressed after cross-Strait initiatives were underway. Professor Chu Yun-peng at National Central University, who is also Director of the school's Center for Taiwan Economic Development has been described in the media as one of Ma's closest economic advisors. Chu told us that there was more to Taiwan's economy than just cross-Strait trade and investment, but he called cross-Strait restrictions a "bottleneck," which is holding back the economy as a whole. Once the bottleneck is broken, the Taiwan authorities can move on to other issues, he said. In an April speech to AmCham, Chu highlighted the need to relax cross-Strait restrictions in order to allow Taiwan's economy to reach its potential.

¶5. (C) In discussing Ma's cross-Strait economic agenda with KMT insiders, we found disagreement about which specific measures would be implemented first. Chu emphasized that Ma would have to first implement those measures he could accomplish unilaterally, specifically lifting technology and capital restrictions on investment. Kao Koong-lian, former Mainland Affairs Council Chairman and a fellow at the KMT's National Policy Foundation (NPF), said the opposite. He told us Ma would focus on cross-Strait negotiations on charter flights and tourism because those would bring the greatest direct benefit to Taiwan's domestic economy.

TAIPEI 00001042 002 OF 002

Chang Jung-kung, the Mainland Affairs Department Director of the KMT Central Committee, said Ma would be able to pursue all of these initiatives simultaneously.

PRC Cooperation and Prospects for Success

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¶6. (C) Ma's ability to succeed in implementing his cross-Strait agenda will depend in large part on the attitude of the PRC toward a Ma presidency. On this issue too, there were different opinions here on how eager Beijing might be to work with Ma. Both former MAC Chairman Kao and Professor Chu expressed uncertainty about Beijing's reaction to Ma in the role of President of Taiwan and suggested it might take time to conclude bilateral initiatives. This could be particularly problematic as expanded charter flights move closer to discussions of regular direct air links. Chu pointed out that Ma was much more cautious than KMT Honorary Chairman Lien Chan, who has now led three delegations to China for meetings with Chinese Communist Party leaders. Chu commented that Beijing would likely take note of the fact that Ma still talks about the Tiananmen Square incident in public appearances. KMT Central Committee Member Chang was more optimistic about Beijing's willingness to cooperate with a Ma administration. He predicted a four year honeymoon during which the PRC would be eager to demonstrate quickly that Taiwan could benefit economically from closer ties to China.

DPP Opposition Not a Problem

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¶7. (C) There seemed little concern among KMT insiders about the potential for DPP opposition to block progress on cross-Strait economic initiatives or the need for bipartisan consensus. Kao pointed out that nearly all of the measures that Ma has proposed can be implemented by executive authority alone, without requiring any approval

by the Legislative Yuan. The Chen administration hosted two conferences in 2001 and 2006 to reach consensus among academic, business and political leaders of all parties on cross-Straits and other economic policies. Kao dismissed the idea that a Ma administration would use such an approach. He explained that the DPP in opposition would boycott such a conference or use it for political ends. In addition, he noted that the earlier conferences had to a large extent already endorsed the KMT cross-Straits agenda.

Comment - Just How Fast?

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¶8. (C) If Ma Ying-jeou is elected President in 2008, cross-Straits issues will form the core of his economic policy. Expectations of rapid change will be high in the Taiwan business community and among foreign investors. Some may be disappointed by the pace of change if Beijing initially displays caution about Ma. However, cross-Straits liberalization under a Ma presidency will almost certainly accelerate from the sluggish progress observed under Chen Shui-bian.

YOUNG